

ROCKLIN PUBLIC FINANCING AUTHORITY

Audited Financial Statements
and Compliance Report

June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rocklin Public Financing Authority
Rocklin, California

We have audited the accompanying basic financial statements of the Rocklin Public Financing Authority (the Authority) as of and for the year ended June 30, 2004. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these component unit basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the basic financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Rocklin California, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Richardson & Company

November 8, 2004

Rocklin Public Financing Authority

Component Unit Basic Financial Statements

Management's Discussion and Analysis

For the year ended June 30, 2004

This section of the Rocklin Public Financing Authority (the Authority) component unit financial statements presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2004. Since this management's discussion and analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the Authority's basic financial statements, and the related footnotes.

I. Financial Highlights

At June 30, 2004, the Authority's net assets for governmental funds increased to \$248,694 from \$246,635. This is a change in net assets of \$2,059, due to the decrease in debt service requirements resulting from the refunding of Revenue Bonds during the current year.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The Government-wide Financial Statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. The Authority, while a separate legal entity, acts as a financial conduit for the City of Rocklin (the City).

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. unpaid but accrued interest on indebtedness).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements are prepared on the modified accrual basis of accounting in accordance with generally accepted principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The only fund of the Authority is a Debt Service Fund. The fund statements do not include information related to the Authority's long-term liabilities. Interest on long-term debt and similar accrued obligations are recognized when due. Additional information is provided that reconciles the differences between the government-wide financial statements and the fund financial statements.

Debt Service. A debt service fund is used to account for the repayment of principal and interest on debt as well as pass thru obligations to other taxing agencies.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the basic financial statements can be found on pages 10-15 of this report.

Compliance Report. In addition to the basic financial statements and accompanying notes, this report also presents a report on compliance and internal control. This report comments on the Authority's compliance with certain provisions of laws and regulations. This report also addresses internal control over financial reporting.

The annual financial statements include the Independent Auditors' Report, this Management's Discussion and Analysis, the basic financial statements, notes to basic financial statements, and the compliance report.

III. Government-wide Financial Analysis

The largest portion of the Authority's net assets reflect amounts legally restricted to be used for repayment of bond indebtedness as required by the bond indenture. Unlike most other types of governmental bodies who provide day-to-day services, the main purpose of the Authority is to provide debt service for the repayment of principal and interest for the bond indebtedness of the Authority.

IV. Financial Analysis of the Authority

Net Assets

A summary of the Authority's Statement of Net Assets is as follows:

Condensed Statement of Net Assets As of June 30, 2004

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Current assets	\$ 268,191	\$ 1,156,862	\$ (888,671)
Restricted assets	<u>14,691,544</u>	<u>14,325,137</u>	<u>366,407</u>
Total Assets	<u>14,959,735</u>	<u>15,481,999</u>	<u>(522,264)</u>
Current liabilities	543,286	695,364	(152,078)
Long-term liabilities	<u>14,167,755</u>	<u>14,540,000</u>	<u>(372,245)</u>
Total Liabilities	<u>14,711,041</u>	<u>15,235,364</u>	<u>(524,323)</u>
Net Assets	<u>\$ 248,694</u>	<u>\$ 246,635</u>	<u>\$ 2,059</u>

The Authority's net assets increased \$2,059 from \$246,635 at June 30, 2003 to \$248,694 at June 30, 2004. Total assets decreased by \$522,264 and total liabilities decreased by \$524,323.

Changes in Net Assets

A summary of the Authority's Statement of Activities, recapping the Authority's revenues earned during the fiscal year ended June 30, 2004, and the expenditures incurred is as follows:

Condensed Statement of Activities For the Fiscal Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Revenues:			
Use of money and property	\$ 574,970	\$ 858,728	\$ (283,758)
Transfers from the City of Rocklin	<u>130,037</u>	<u>135,000</u>	<u>(4,963)</u>
Total Revenues	705,007	993,728	(288,721)
Total Expenditures	<u>702,948</u>	<u>884,367</u>	<u>(181,419)</u>
Net Increase (Decrease) In Net Assets	2,059	109,361	<u>\$ (107,302)</u>
Net Assets, beginning	<u>246,635</u>	<u>137,274</u>	
Net Assets, ending	<u>\$ 248,694</u>	<u>\$ 246,635</u>	

Earnings from the use of money and property were lower than prior year due to the differences in interest rates as a result of the bond refunding. The lower interest rates on the bonds also caused interest expenditures to decrease as compared to the prior year.

V. Budgetary Highlights

The Authority adopts an annual budget that includes proposed expenditures and expected earnings. Public hearings are conducted to obtain comments from the public before finalizing the budget. The Authority's budget is adopted by the Rocklin City Council on or before June 30th of each year. Subsequent increases or decreases to the original budget must be approved by the City Council. There were no budget amendments in the current reporting period.

There was a net unfavorable variance between budgeted and actual expenditures in the amount of \$44,273 due to refunding costs. See section VII. of this MD&A for comments on the effect of the refunding on next year's budget.

Earnings from the use of money and property was higher than budgeted, for the fiscal year by \$96,907 due to fluctuations in the market value of investments held.

VI. Debt Administration

In January 2004, the Authority refunded the outstanding 1999 Public Financing Authority Revenue Bonds. The refunding was accomplished in order to reduce total debt service payments and obtain an economic gain, as represented by the difference between the present values of the old and new debt service payments. The resulting reduction of debt service requirements was \$3,879,866 and economic gain was \$1,128,360. The 1999 Bonds were retired using the proceeds from the issuance of 2003 Senior Refunding Revenue Bonds and 2003 Subordinate Refunding Revenue Bonds. Principal payments on the 2003 Bonds began September 1, 2004. The principal balances outstanding at June 30, 2004 for the Senior and Subordinate 2003 Refunding Revenue Bonds is \$12,575,000 and \$1,455,000, respectively. Total long-term debt decreased by \$442,245 during the current fiscal year. For additional information on the Authority's long-term debt refer to Note C. on pages 13-14 of this report.

VII. Economic Factors and Next Year's Budget

Since the Authority's primary source of revenue is from earnings on investments with determined interest rates, interest rates are not a key economic factor that defines the future resources of the Authority.

The anticipated earnings on the use of money and property for Fiscal Year 2004-2005 are \$939,100.

The current year refunding of bonds caused a savings of interest to occur and accordingly the expenditures budgeted for the upcoming fiscal year's debt service requirements are \$949,900, which is significantly less than the budgeted amounts would have been without the refunding.

VIII. Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Manager, 3970 Rocklin Road, Rocklin, California, 95677.

ROCKLIN PUBLIC FINANCING AUTHORITY

STATEMENT OF NET ASSETS
AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2004

	Debt Service Fund	Adjustments (Note D)	Statement of Net Assets
ASSETS			
Cash and investments	\$ 2,463		\$ 2,463
Unamortized bond issuance costs		\$ 265,728	265,728
Restricted assets:			
Cash and investments	14,691,544		14,691,544
TOTAL ASSETS	<u>\$ 14,694,007</u>	<u>265,728</u>	<u>14,959,735</u>
LIABILITIES			
CURRENT LIABILITIES			
Interest payable		203,286	203,286
Long-term liabilities, due within one year		<u>340,000</u>	<u>340,000</u>
TOTAL CURRENT LIABILITIES		543,286	543,286
NONCURRENT LIABILITIES			
Long-term liabilities, due in more than one year		<u>14,167,755</u>	<u>14,167,755</u>
TOTAL LIABILITIES		14,711,041	14,711,041
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for debt service	\$ 14,694,007	(14,694,007)	
TOTAL FUND BALANCE	<u>14,694,007</u>	<u>(14,694,007)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 14,694,007</u>		
Net Assets:			
Restricted for debt service		<u>248,694</u>	<u>248,694</u>
TOTAL NET ASSETS		<u>\$ 248,694</u>	<u>\$ 248,694</u>

The accompanying notes to the component unit financial statements are and integral part of this statement.

ROCKLIN PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2004

	Debt Service Fund	Adjustments (Note E)	Statement of Activities
EXPENDITURES			
Current:			
General government	\$ 491,440	\$ (153,247)	\$ 338,193
Debt service:			
Principal	410,000	(410,000)	
Interest	446,833	(82,078)	364,755
TOTAL EXPENDITURES/ NET PROGRAM EXPENSES	1,348,273	(645,325)	702,948
GENERAL REVENUES			
Use of money and property	574,970		574,970
TOTAL GENERAL REVENUES	574,970		574,970
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(773,303)	645,325	(127,978)
OTHER FINANCING SOURCES (USES)			
Transfers from the City	130,037		130,037
Refunding bonds issued	14,030,000	(14,030,000)	
Payment to refunded bond escrow agent	(13,885,574)	13,885,574	
Discount on refunding bonds	(289,152)	289,152	
	(14,689)	144,726	130,037
CHANGE IN NET ASSETS	(787,992)	790,051	2,059
Net assets at beginning of year	15,481,999	(15,235,364)	246,635
NET ASSETS AT END OF YEAR	\$ 14,694,007	\$ (14,445,313)	\$ 248,694

The accompanying notes to the component unit financial statements are and integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the more significant accounting policies of the Rocklin Public Financing Authority (the Authority) is presented to assist the reader in interpreting the financial statements and other data in this report. The accounting policies of the Agency conform in all material respects to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Reporting Entity: On December 13, 1994, pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, the City of Rocklin (the City) authorized the formation of a joint powers authority with the Rocklin Redevelopment Authority to be known as the Rocklin Public Financing Authority (the Authority). The accounting methods and procedures adopted by the Authority conform to generally accepted accounting principles as applied to governmental entities.

The Authority is considered to be a component unit of the City. These entities are legally separate from each other. However, the City elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the Authority. As a result, the Authority is presented as a blended component unit within the City's financial statements.

Basis of Presentation—Government-wide Financial Statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The effect of interfund activity, if any, has been removed from these statements. The Authority has only governmental activities, which are supported by interest, transfers from the City and principal paydowns on investments.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed.

Basis of Presentation—Fund Financial Statements: The accounts of the Authority are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Authority's expendable financial resources and related liabilities. The Authority is accounted for in a debt service fund, which is used to account for the accumulation of resources for, and the payment of, principal and interest on Revenue Bonds and other debt.

Annual Financial Statements: These financial statements are intended to reflect the financial position, results of operation and net assets of the Authority. They do not present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

Long-term Debt: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bonds premiums, as well as issuance costs, are deferred and amortized over the lives of the bonds. Bonds payable are reported net of the applicable bond premiums.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. Governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Fund Balance/Net Assets: In the basic financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At June 30, 2004, reservations of fund balance consist of amounts reserved for debt service, which are used to segregate that portion of fund balance legally restricted for debt service payments as required by the bond indenture.

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as net assets invested in capital assets (net of related debt, if any), restricted and unrestricted. The Authority has no net assets invested in capital assets. Amounts reported as restricted for debt service represent amounts used to segregate that portion of net assets legally restricted for debt service payments as required by the bond indenture.

ROCKLIN PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE B — CASH AND RESTRICTED CASH AND INVESTMENTS

The Authority's cash and investments consisted of the following as of June 30, 2004:

Unrestricted cash and investments	
Cash in City's pool	\$ 2,463
Restricted cash and investments	
Mutual fund	664,472
Local agency special tax bonds	<u>14,027,072</u>
	<u>14,691,544</u>
Total cash and investments	\$ <u>14,694,007</u>

The Authority participates in the City's cash and investment pool. These balances are stated at fair value. The Authority's share of the cash and investment pool is separately accounted for and interest earned is apportioned quarterly based upon the relationship of its average monthly cash balance to the total of the pooled cash and investments. The total amount invested by all public agencies in the City's cash and investment pool is \$76,514,604. The City does not invest in any derivative financial products or structured financial instruments directly. However, it does invest in LAIF, which does invest in derivative financial products or structured financial instruments. The value of pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool.

Restricted cash and investments represent amounts deposited into reserve accounts in accordance with the debt agreements. The amounts held in mutual funds are uncategorized as defined by the GASB. The Authority's investment in local agency special tax bonds are stated at fair value. These investments are uninsured or unregistered with the related securities held by the Authority or its agent in the Authority's name and thus are credit risk Category 2 as defined by the GASB. These investments consist of special tax bonds issued by special assessment districts within the City that were purchased with the proceeds of the 2003 Refunding Revenue Bonds.

ROCKLIN PUBLIC FINANCING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE C — LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the period ended June 30, 2004:

	Balance at July 1, 2003	Additions	Retirements	Balance at June 30, 2004	Due within one year
2003 Public Financing Authority Refunding Revenue Bonds – Senior		\$ 12,575,000		\$ 12,575,000	\$ 240,000
2003 Public Financing Authority Refunding Revenue Bonds – Subordinate		1,455,000		1,455,000	
Ganiats promissory note	\$ 850,000		\$ (100,000)	750,000	100,000
1999 Public Financing Authority Revenue Bonds	<u>14,100,000</u>		<u>(14,100,000)</u>		
	<u>\$ 14,950,000</u>	<u>\$ 14,030,000</u>	<u>\$ (14,200,000)</u>	14,780,000	<u>\$ 340,000</u>
Less: Bond discount				<u>(272,245)</u>	
				<u>\$ 14,507,755</u>	

Long-term debt consists of the following:

2003 Senior and Subordinate Refunding Revenue Bonds: In January 2004, the Rocklin Public Financing Authority issued \$12,575,000 of Senior Refunding Revenue Bonds and \$1,455,000 of Subordinate Refunding Revenue Bonds. Proceeds from these bonds were used to refund the outstanding 1999 Public Financing Authority Revenue Bonds. The Bonds are secured by revenues from specific assessment districts. Interest rates range from 2% to 4.5% for the Senior issue and 2.25% to 5.625% for the Subordinate issue. Principal payments ranging from \$240,000 to \$850,000 are payable annually on September 1 and interest payments ranging from \$19,550 to \$229,102 are payable semi-annually on March 1 and September 1 through September 1, 2025 for the Senior issue. Principal payments ranging from \$60,000 to \$120,000 are payable annually on September 1 and interest payments ranging from \$3,375 to \$33,173 are payable semi-annually on March 1 and September 1 through September 1, 2021 for the Subordinate issuance.

\$ 14,030,000

Promissory Note: On March 31, 1999, the Authority entered into an installment sale agreement with George C. Ganiats to purchase property. The original principal amount of \$1,250,000 will be paid in ten equal installments of \$100,000 and a final payment of \$250,000. The installment payments are due on April 1, of each year commencing in 2000 and ending in 2009. The final payment is due April 1, 2010. Interest is accrued and due annually at 5% on the outstanding principal amount related to the installments and 1.84% on the final payment.

750,000

ROCKLIN PUBLIC FINANCING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE C — LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of June 30, 2004 are as follows:

Year Ending June 30:	2003 PFA Refunding Revenue Bonds – Senior		2003 PFA Refunding Revenue Bonds-Subordinate		Ganiats Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 240,000	\$ 258,510	\$	\$ 37,043	\$ 100,000	\$ 25,000
2006	430,000	458,204	60,000	66,346	100,000	20,000
2007	440,000	449,604	65,000	64,996	100,000	15,000
2008	445,000	440,804	65,000	63,290	100,000	10,000
2009	455,000	431,904	70,000	61,259	100,000	50,000
2010 – 2014	2,455,000	1,982,843	375,000	266,244	250,000	50,000
2015 – 2019	2,895,000	1,539,069	475,000	171,312		
2020 - 2024	3,555,000	883,015	345,000	38,813		
2025 – 2029	<u>1,660,000</u>	<u>115,460</u>				
	<u>\$ 12,575,000</u>	<u>\$ 6,559,413</u>	<u>\$ 1,455,000</u>	<u>\$ 769,303</u>	<u>\$ 750,000</u>	<u>\$ 170,000</u>

In January 2004, the Authority issued 2003 Subordinate and Senior Refunding Revenue totaling \$14,030,000 with an average interest rate of 4.44% to advance refund \$13,790,000 of outstanding 1999 Public Financing Authority Revenue Bonds, with an average interest rate of 6.13%. The Authority completed the advance refunding to reduce its total debt service payments through September 1, 2025 by \$3,879,866 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,128,360.

NOTE D – RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Amounts reported for governmental activities in the governmental fund balance sheet are being adjusted to arrive at the statement of net assets. The adjustments are as follows:

Total governmental fund balance	\$ 14,694,007
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund balance sheet.	(14,780,000)
Interest payable on long-term debt does not require the use of current financial resources funds and, therefore, is not reported in the Governmental Fund.	(203,286)
The governmental fund reports discounts on long-term bonds as other financing uses, whereas these amounts are deferred and amortized in the Government-wide Statement of Activities.	272,245
The governmental fund reports debt issuance costs (deferred charges) as part of expenditures, whereas these amounts are deferred and amortized in the Government-wide Statement of Activities.	<u>265,728</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 248,694</u>

ROCKLIN PUBLIC FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE E – RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Amounts reported for governmental activities in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance are adjusted to arrive at the Statement of Activities for Government-wide presentation. The adjustments are as follows:

Net Change in Fund Balance – Total Governmental Fund	\$ (787,992)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayment exceeded proceeds.	170,000
The governmental fund reports bond discount as an other financing use; however, these costs are capitalized and amortized in the Government-wide Statement of Activities.	272,245
The governmental fund reports debt issuance costs (deferred charges) as an expenditure, whereas these costs are deferred and amortized in the Government-wide Statement of Activities.	265,728
Some expenses reported in the Government-wide Statement of Activities do not require the use of current financial resources and therefore are not expenditures in the Governmental Fund. Amount represents the change in interest payable.	<u>82,078</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,059</u>

COMPLIANCE REPORT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Rocklin Public Financing Authority
Rocklin, California

We have audited the basic financial statements of the Rocklin Public Financing Authority (a component unit of the City of Rocklin, California) (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Public Financing Authority

This report is intended solely for the information and use of the management, others within the organization and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

November 8, 2004